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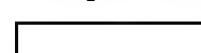
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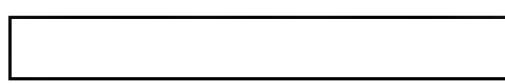
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ISRAEL-LEBANON

Israeli aircraft conducted air strikes inside Lebanon yesterday for the third consecutive day, attacking fedayeen targets near the port cities of Tyre and Sidon. Lebanese and Israeli spokesmen stated that the fedayeen fired SA-7 missiles at the attacking aircraft.

Although the strikes apparently were directed against guerrilla positions and military facilities, civilian areas of several refugee camps may have also been hit. US embassy and press reports from Beirut indicate that some hundred persons were killed or wounded. Israeli troops also shelled fedayeen positions near the border in southern Lebanon.

Military officials in Tel Aviv stated that the air raids were in response to a "recent intensification" of Arab guerrilla activity on its frontier with Lebanon. The Israelis stressed that these latest reprisals are directed only at fedayeen military installations, and that "all possible" measures have been taken to prevent injury to civilians or their property. By emphasizing the military nature of the operations, the Israelis probably hope to deflect criticism of the attacks from abroad, particularly since they come on the heels of the Israeli-Syrian disengagement accord and President Nixon's Middle East trip.

Lebanese Prime Minister Sulh yesterday summoned the ambassadors of the permanent members of the UN Security Council and Arab representatives to inform them of the Israeli raids. In discussions with the US ambassador, he requested that the US urge restraint upon the Israelis and reiterated a theme frequently expressed by Lebanese officials--that Israeli strikes against Lebanon serve only to vindicate the deeds of fedayeen extremists. Sulh said he had hoped that Israeli Prime Minister Rabin would be a reasonable man, but that he now despairs of a Middle East solution.

In public, however, officials in Beirut have reacted with relative calm to the attacks. This restraint probably stems from relief that there have been fewer casualties among Lebanese--as opposed to Palestinian--civilians than was the case during the Israeli reprisals for the fedayeen attack on Maalot last month.

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There is no firm indication that the Lebanese plan to request a meeting of the UN Security Council, although Sulh told the press yesterday that he is "examining the possibility." Lebanon has in the past called for UN action, largely out of frustration at the Lebanese army's limited ability to stand up to either the Israelis or the fedayeen. Beirut, however, has been unhappy with the general ineffectiveness of UN calls for Israeli restraint.

Egyptian Foreign Minister Fahmi urged the Security Council on June 18 to "adopt the necessary measures" to stop the Israeli raids, but his statement was rhetorical,

Fahmi warned that the raids endanger prospects for peace and served notice that Egypt cannot "stand idle" in the face of continued attacks. This too has become standard rhetoric; Fahmi and other Egyptian officials made similar statements following Israeli retaliatory raids in April and May.

MOROCCO-SYRIA

Morocco has announced that it is withdrawing its expeditionary force from Syria. Ceremonies marking the force's departure are to be held in Syria tomorrow, by which time the first contingent of troops is to have left by air. Most of the Moroccan force of some 2,000 men and its equipment will return home by sea.

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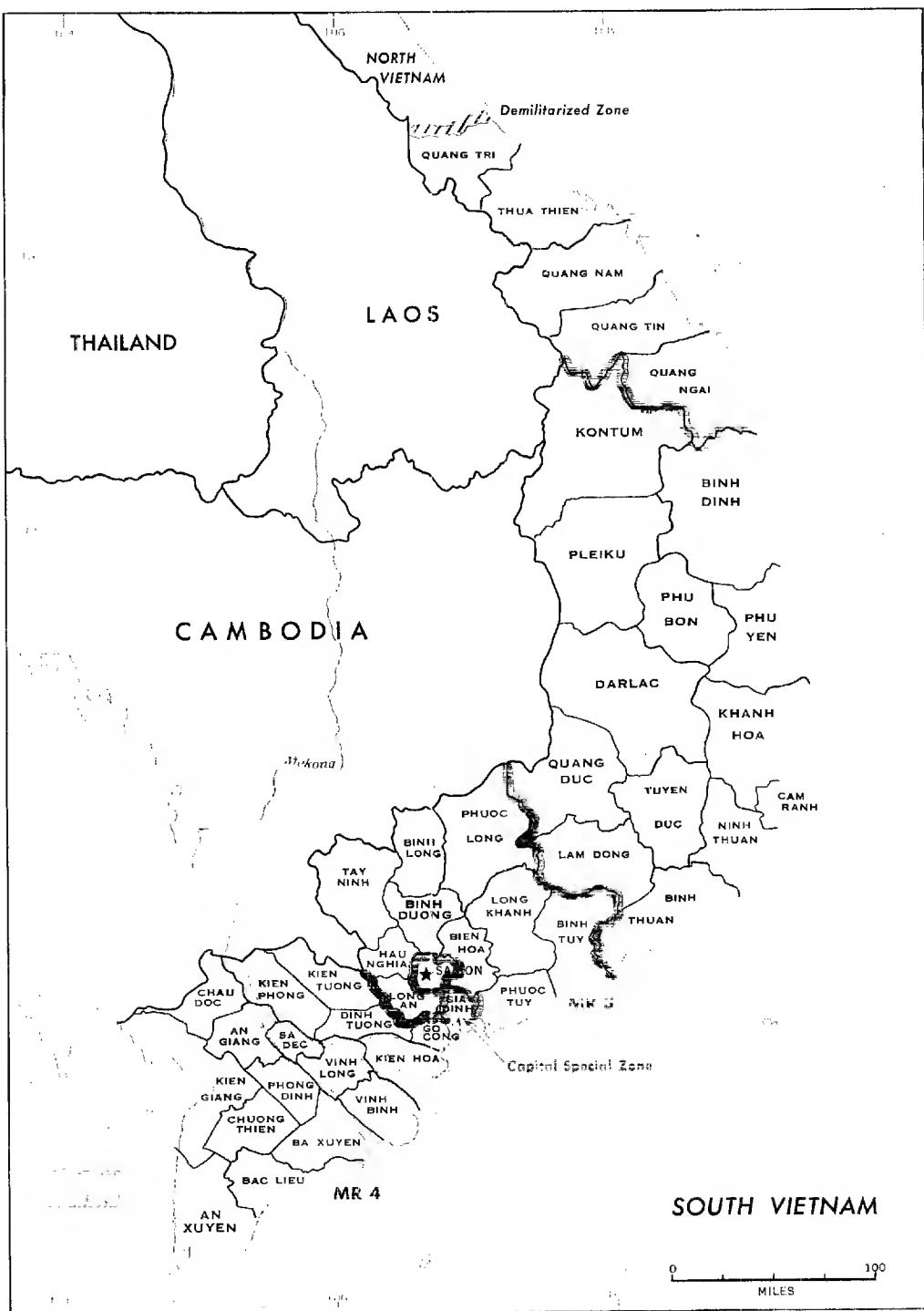
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SOUTH VIETNAM

Heavy combat is falling off in some areas of the country as monsoon rains increasingly inhibit military activities of both sides. South Vietnamese air activity is particularly restricted. Government operations are being slowed further by stiff enemy resistance and restrictions on ammunition expenditures. The Communists have suffered severe losses in some areas and it may be some time before they can resume combat operations.

The most significant fighting has been in Binh Duong Province, just north of Saigon, where elements of the Communist 7th and 9th divisions continue their stubborn opposition to government attempts to recapture several outposts. The government's regional commander suspended the operation yesterday, but he hopes to be able to resume it after a brief respite to rotate and re-equip his forces.

Sharp skirmishing is also occurring in the Cambodian border region of the northern delta where the Communist 5th Division is reopening infiltration corridors into the central delta. In the highlands and in some northern provinces where government offensive operations are making little headway, the Communists are relying increasingly on small-scale harassing attacks, terrorism, and the blocking of major highways.

Despite the slower tempo, there are indications that the current Communist campaign will carry over until mid-July--particularly in the coastal lowlands of the northernmost provinces where the weather is improving. Many main force Communist units there have been strengthened and reportedly are preparing for combat. In addition to the increasing level of action in the north, the Communists may also soon go after several isolated South Vietnamese outposts in the highlands and launch diversionary attacks in provinces near Saigon to draw government forces away from the Binh Duong Province front.

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ITALY

Prime Minister Rumor's three-party center-left government has survived the bitter dispute over fiscal policy, but its durability remains suspect.

The terms of the agreement were not announced, but it will contain stiff tax hikes and credit restraints to curb demand and inflation. The final accord reportedly was very similar to the package that led the government to submit its resignation--which President Leone refused--on June 10.

The program will be presented to parliament next week for debate and a vote of confidence. Party leaders should be able to muster the necessary support in parliament, but government-union consultations on the program may be more difficult. The tax and credit measures will not become effective until all of these consultations are completed.

Socialist Party demands, introduced earlier this week, that consultations between the government and the Communist Party be institutionalized apparently were dropped. The Communists have participated in "cloakroom consultations" in the past, but the other center-left parties have always resisted giving the Communists a formal role in the decision-making process.

The degree of Communist consultations probably will remain murky. The communiqué announcing the economic accord, for example, mentioned the government's "broad disposition to meet with political, social, union, and management forces."

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The coalition's ability to paper over its differences on economic policy is not expected to ease the basic political conflicts within the government. The Socialists, in particular, have seized upon the gains left-wing parties made this week in the Sardinian elections as fresh evidence of a trend away from the dominant Christian Democrats. This self-confidence may make them less amenable to compromise in future coalition confrontations.

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JAPAN - NORTH VIETNAM

Japan and North Vietnam are making progress in resolving issues that have blocked an exchange of ambassadors since diplomatic relations were established last September.

North Vietnamese officials in Vientiane, in conversation with Japanese counterparts, have been less inconsistent than in earlier discussions on demands for prior recognition of the PRG. Hanoi also cut in half its previous demand for \$118 million in Japanese aid. Although Japan has budgeted only \$18.5 million for aid to North Vietnam, Tokyo is probably willing to provide more if necessary to facilitate an agreement. Tokyo wants Hanoi to acknowledge, however, that the aid would settle North Vietnam's World War II reparations claim. Hanoi will probably comply.

Hanoi is generally showing increased flexibility on the PRG issue in its dealings with other countries, notably France. The more positive North Vietnamese stance on aid matters may indicate that Hanoi's economic planning has reached the point where serious consideration of concrete aid offers is becoming possible.

Japanese officials are "fairly confident" that agreement can be reached this fall on all these issues. Tokyo claims to see no urgency, but there are indications that pressure may increase in the Diet for faster movement on the issues.

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OECD

A new forecast by OECD economists and member country experts appears overly optimistic if the member countries continue to pursue restrictive economic policies.

The forecast anticipates a mild economic recovery during the second half of this year, accelerating somewhat during the first half of next year. The forecast assumes that expansionary economic policies will be introduced this summer in France, West Germany, and Japan as inflationary pressures begin to ease and unemployment rises. Current restrictive economic policies, however, may not be so quickly abandoned, because these governments generally face unacceptable rates of inflation and worrisome trade deficits. Moreover, unemployment rates have not risen compared with rates last year, except in West Germany.

There are indications that the consensus report that emerged at the OECD forecasters' meeting in Paris last week was not acceptable to the country representatives. Japanese officials, for example, stressed that Tokyo would neither relax its monetary policy nor increase government investment in the near future. They estimated that Japan's real gross national product will consequently decline by 1.5 percent this year, rather than increase as forecast by the OECD. Italian and French representatives also argued that the forecast for their countries was too optimistic.

The forecast sees more rapid growth and less inflation in most countries than indicated in earlier OECD projections. Italy's growth rate, however, was revised substantially downward for the first half of 1974--from 3.6 percent to 2.0 percent; real gross national product is still expected to decline in the US, Japan, and the UK. The consensus is for stronger overall economic performance in the second half of 1974. Growth forecasts were raised for Canada, West Germany, and Italy; the projected growth for the US is now twice as high as estimated in January.

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